

ANNUAL BUDGET OF

# NQUTHU LOCAL MUNICIPALITY

“phambili ngentuthuko eNquthu”

“forward with development at Nquthu”



2020/21 TO 2022/2023  
MEDIUM TERM REVENUE AND EXPENDITURE  
FORECASTS

## Table of Contents

<b>PART 1 – ANNUAL BUDGET .....</b>	<b>3</b>
1. 1. MAYOR’S REPORT .....	3
2. 2. COUNCIL RESOLUTIONS .....	7
3. 3. EXECUTIVE SUMMARY .....	8
4. 4. OPERATING REVENUE FRAMEWORK.....	10
5. 5. OPERATING EXPENDITURE FRAMEWORK .....	11
6. 6. CAPITAL EXPENDITURE.....	13
<b>PART 2 – SUPPORTING DOCUMENTATION .....</b>	<b>14</b>
7. 7. OVERVIEW OF THE ANNUAL BUDGET PROCESS.....	14
8. 8. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP .....	14
9. 9. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS .....	16
10. 10.OVERVIEW OF BUDGET RELATED-POLICIES .....	17
11. 11.OVERVIEW OF BUDGET ASSUMPTIONS .....	17
12. 12.OVERVIEW OF BUDGET FUNDING.....	18
13. 13.EXPENDITURE ON GRANTS AND RECONCILIATIONS OF UNSPENT FUNDS .....	18
14. 14.ALLOCATIONS ON GRANTS MADE BY THE MUNICIPALITY .....	18
15. 15.COUNCILOR AND EMPLOYEE BENEFITS .....	18
16. 16.MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW .....	19
17. 17.ANNUAL BUDGETS AND SDBIPs – INTERNAL DEPARTMENTS .....	19
18. 18.CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS .....	19
19. 19.CAPITAL EXPENDITURE DETAILS.....	19
20. 20.LEGISLATION COMPLIANCE STATUS .....	20
21. 21.OTHER SUPPORTING DOCUMENTS.....	21
22. 22.MUNICIPAL STANDARD CHART OF ACCOUNTS (M-SCOA).....	21
23. 23.MUNICIPAL MANAGER’S QUALITY CERTIFICATE .....	23

## **Part 1 – Annual Budget**

### **1. Mayor's Report**

#### **Mayor's Report (2020/2021 Budget)**

#### **WE ARE SERVANTS OF OUR PEOPLE, WHO ARE OUR MASTERS!!!**

Greetings all

Mister Speaker, Honorable Traditional Leaders, Honorable Councilors, The Accounting Officer leading his management and staff, and the public gallery I pass my greetings to you, it is with pleasure and honor that I am tabling this draft budget for the 2020/2021 financial year to you.

The period we are in is a is a tough one for the municipality where we have seen Cllr. SM Kunene resigning from his position as the mayor. This is leaving me in a hot sit as an Acting Mayor who must steer the ship into the right direction. I am giving my full commitment in ensuring that I execute all the tasks entrusted in me to the best of my ability.

This period is further compounded by the current pandemic that is affecting the whole world and our country is not immune to this COVID-19 which is threatening whatever is left of our ailing economy.

I urge everyone to be extra careful and take care of yourselves as we have been directed by our National government. We are fully aware that our district is still having a huge issue in terms of water provision in to our communities which make it difficult for them to ensure the precautions as set are met.

I would like to further request the Accounting Officer to ensure that all the emergency procurement that are sourced during this time are sourced within the applicable legislation and any directive that will be given by the National Government so that we do not find ourselves wanting when audit time comes and we must avoid irregular expenditure at all cost.

I trust that the municipality will be ready in all fronts to ensure that we keep our workforce and Nquthu citizens safe, I urge that the Health and Safety Committee convene at regular basis to take stock of all the risks and chart the way forward.

This is the third budget that this council starts afresh considering that our initial budget was only adopted immediately after council inauguration due to the reasons all of you are fully aware of.

But now we can no longer dwell in the past, we need to ensure that we are on track and our budget can serve the needs of this community that trusted us with their votes. Meaning we must look back at our promises that we made if we are in the right direction in implementing those.

As this Council we are facing the tough task now of building the trust with the community that we serve and ensure that they have the hope for entrusting us with governing this municipality.

Our budget is aligning with our strategic objectives as set out in the IDP.

- Fully fledged vehicle and drivers testing station (Grade A)
- Firefighting station building
- Putting infrastructure in undeveloped land to facilitate economic growth
- Electricity projects subject to budget availability by Eskom
- Roads network funded by Municipal Infrastructure Grant (MIG)
- Community structures in terms of halls and sports facilities
- Rehabilitation of surfaced roads within the town and human settlement areas
- Implementation of the Municipal Standard Chart of Accounting (MSCOA) as well as related financial reforms.
- Fully explore the potential of tourism through our rich heritage of battlefields corridor
- The Nquthu Buy Back Center will play both the role of creating environmental awareness and poverty alleviation in our area
- Our partnership with the Bornem municipality is still yielding the desired result and the recently renewed agreement will give us more returns
- Support the LED through the SMME incubator and other agricultural activities.

As this council we have seen a lot being spent in the current period, and activities happening in our municipality. Some projects did not go well as planned, but as this council when we passed our adjustment budget, we specifically made a resolution that the Technical Department must submit a turnaround plan to ensure that all the projects that are behind schedule are attended to without any further delays.

This Council has a duty to hold the Accounting Officer and his team accountable for executing the resolutions of this council, let us then let them account to us.

Non-payment for property rates, electricity and refuse is still a growing concern for the municipality as there is a continued increase in the debt owed by the residents, this is caused by current economic climate and high levels of poverty we are experiencing in our region. We, however, still expect those that can afford to honour this critical financial commitment for each and every household. The other worrying factor is non-payment by government departments.

This is causing a strain on the municipal finances and the inter-governmental avenues are currently being explored to ensure that these are paid. This is compounded by the high losses in the electricity trading account.

The municipality is also seeing a high exodus of skilled employees leaving for other municipalities, this creates a vacuum that is hard to fill, the primary cause is seen as the uncompetitive salaries, this puts us on a tight corner as we must also ensure that we do not exceed the maximum norm for salary costs.

The municipality must prepare a budget that is; funded, credible, sustainable and relevant. The municipality has always achieved this in all previous budget years considered.

We call upon our citizenry from all walks of life to take some trouble to look at our 2020/2021 MTREF and provide us with written comments so as to ensure that such views are encapsulated in the final document for approval by the Council later in this financial year. Our Budget and Treasury Office will also welcome verbal contributions which people can make by popping into our offices with their comments.

**2020/2021 MTREF SUMMARY** (please note the summary will be inserted once all the figures have been finalized for submission)

### **Underlying Principles - Draft Budget**

The council met during March 2020 to conduct a strategic planning and resolutions were taken that must be implemented in support of the municipal vision.

- The bulk purchases of electricity are above the National Treasury inflationary guidelines. Although the increases by Eskom and approved by the NERSA are beyond Council's control, this budget is structured such as to absorb these excessive increases and keep the majority of electricity tariff increases within 6.22%, as NERSA approved the increase for Eskom at 7.32%;
- Repairs and Maintenance provisions reach the best practice parameters of 8% of Asset Cost and 13% of Operating Expenditure target;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

### **Tariff Approach**

Tariffs increases respond to the current economic downturn because over the years we have had higher increases, as directed by the Budget circulars. On average our tariff increase are around 6% on all the tariffs that are applicable to the municipality which are detailed in the tariffs booklet, with the exception of Electricity which is around 9%.

### **Challenges**

There have been various challenges that will be fully detailed in the budget book mostly emanating from the limited funding the municipality has had as well as the implementation of MSCOA which caused some delays in finalizing the budget.

## **Indigent Support**

- Free 50 kilowatts of electricity;
- Free Rates if property is valued less than R100 000;
- Free Refuse if property is valued less than R100 000;
- Free Refuse collection in Traditional areas through the use of skips;
- Over and above the free services indigent consumers not catered for as per above are assisted subject to the application on a form designed for that purpose by the Municipality.

The current blanket approach will need to be looked in so that we can only fund those deserving households.

## **Pensioners and Social Grantees**

Pensioners who are already registered to receive a rebate will now only receive a form to complete rather than following the lengthy registration process.

Rebate of R200 000.00 on Primary residential property on application.

## **Capital Budget**

The 2020/2021 Capital Budget amounts to **R 98 million** and a detailed list of all the projects is contained in the budget document.

## **Conclusion**

This is peoples budget as we are spending more towards the community projects, and less on our operational costs, we have ensured that limit those to the minimum possible.

Through this we are responding to the clarion call that was made by one respected politician who is a MPL in our KZN Legislature Hon. VF Hlabisa that I want to quote below:

*"We must restore trust between people and politics. This means we must be firmly rooted amongst the people anew, for the people are our masters and we are their servants."*

*"I want to hear every voice of every South African as we craft new solutions for the development of our country. As President Julius Nyerere said, 'If real development is to take place, the people have to be involved.'"*

In closing I would like to take this opportunity to thank the Municipal Manager and his management team as well as all other municipal officials for their hard work in putting together the 2020/2021 MTREF.

Thank you, SONQOBA SIMUNYE!!!

The Mayor

Honorable Cllr. IL Shabalala

## 2. Council Resolutions

1. **THAT Council of Nquthu Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003), will convene in the Council Chambers to consider the tabled budget for 2020/2021 financial year. The Council will approve and adopt the following resolutions:**

1.1 The annual budget of the municipality for the financial year 2020/2021 and the multi-year and single-year capital appropriations as set out in the following tables:

- 1.1.1 Budget summary as contained in Table A1;
- 1.1.2 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in table A2;
- 1.1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3; and
- 1.1.4 Budgeted Financial Performance (revenue and expenditure) as contained in Table A4;
- 1.1.5 Budgeted Capital Expenditure by vote, standard classification and funding as contained in Table A5;

1.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

- 1.2.1 Budgeted Financial Position as contained in Table A6;
- 1.2.2 Budgeted Cash Flows as contained in Table A7;
- 1.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;
- 1.2.4 Asset management as contained in Table A9; and
- 1.2.5 Basic service delivery measurement as contained in Table A10.

2. **The Council of Nquthu Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems ACT (ACT 32 of 2000) after its inauguration after the By-election approves and adopts with effect from 1 July 2020:**

- 2.1 The tariffs rates property - as set out in the Annexure A
- 2.2 The tariffs for electricity – as set out in Annexure B
- 2.3 The tariffs for solid waste services - as set out in Annexure C

3. **The Council of Nquthu Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems ACT (ACT 32 of 2000) resolves to recommend to Council to approve and adopt with effect from 1 July 2020 the tariffs for other services, as set out in annexure D.**

4. To give proper effect to the Municipality's annual budget, the **Council of Nquthu Local Municipality approves:**

- 4.1 That cash backing is implemented through the utilisation of a portion of the revenue generated from the property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves

policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

4.2 That the Municipal Manager be authorized to sign the quality certificate.

5. The draft tabled budget be sent to Provincial Treasury and National Treasury as legislated both in electronic and printed format as legislated.

6. The public consultation process be undertaken as legislated.

### **3. Executive Summary**

The municipality as is the case in the whole is faced with financial difficulties mainly caused by the low payment of services by the debtors and there is a pressure to continue with controlled spending and continue reducing expenditure that is unnecessary.

The municipality has identified the piece of land that we must dispose so that we can see economic spin-offs, these will be used for residential as well as commercial purposes. The only set-back that we have is that this does not have existing infrastructure in terms of roads, electricity and water. We have obtained the costing assessment for this and with our available resources we will not be able to afford it therefore we shall look at other funding alternatives that we may have, like taking out loan for this.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The productive involvement of the departments in the budget preparation process, there is persistent lack of cooperation, this leads to very ambitious and unreasonable estimates given that pushes the budget to deficit, this has been happening over the years.

There has been meetings held with the Senior Management and also involved the Middle Management to try and achieve credible budget. This has been ultimately achieved.

A critical review was also undertaken of expenditure on non-core and non-priority spending items in line with NT's Cost containment measures outlined in NT's MFMA circulars number 82 updated and 86. National Treasury has issued draft regulations to deal with the cost containment for public comments, the municipality must in the meantime try and implement these to ensure that when these come into implementation we are used to it.



Emphasis was placed on providing of funds for the repairs and maintenance expenditure line items.

In light of the above cost containment measures the following expenditure line items were identified as non-core and non-priority:

- Subsistence allowances – no increase of tariffs from 2019/20;
- Accommodation allowances – no increase of tariffs from 2019/20;
- Security costs – due to various threats to councilors the council approved body guards for those affected, these are on our payroll, although they are on the payroll they are still deemed as part of security costs;
- Events costs - reduce to 50% below 2019/20 Adjusted Budget; and

The main challenges experienced during the compilation of the 2020/2021 MTREF can be summarised as follows:

- The need to reprioritise projects and expenditure within the existing resource envelope. By far the greatest concern here lies with all the services financed by Property Tax (Rates).;
- The majority of households in Nquthu do not pay Property Rates. This because the individual properties within the Ingonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This despite the same communities enjoying most of the municipal services that are funded by Rates Income;
- There is no Equitable Share allocation for properties that do not pay Property Rates;
- The Electricity Trading account is operating at a deficit and there is no indication that this can be rectified any time soon, but we are busy with strategies to improve the situation;
- The dire need for credible business plans and budget working papers from the service delivery Departments remains a difficult hurdle to overcome;
- Although Employee related costs as a percentage of total Expenditure amounts to 25.5% and appears to be below the 30% industry standard, it is not realistic for Nquthu Municipality to be comfortable with this figure because of the high electricity purchase cost which distorts Council's budget figures when compared to other secondary cities;
- The lack of feasible results in Other Revenue sources for example vehicle licensing, Traffic Fines, Licenses and Permits is placing unsustainable pressure on Rates. This is particularly anomalous in light of the fact that these fees should

increase in an area where population and related vehicle numbers are increasing in yet income is reducing;

- Affordability of capital projects – allocations had to be increased as well as the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2020/2021 MTREF process;
- The dire need for an efficient and effective business ethic to be applied to all the municipality's business processes regardless of whether the intended outcome of such process is of a social, economic or profit making nature;
- Insufficient capital investment for all major infrastructure improvements and Renewal of Existing Assets; and
- The transition to a new financial system and a new chart of accounts (m-SCOA) in this financial year has placed the administration under tremendous strain to compile this budget. The future years' outcome however appears very promising in terms of the m-SCOA objectives. The municipality is on course with the implementation of MSCOA.

#### **4. Operating Revenue Framework**

The municipality is highly dependent on the Equitable Share, although we do have the electricity trading licence but currently the losses from this are very huge and the municipality ends up subsidizing this.

Since the municipality will be implementing the 3<sup>rd</sup> General Valuation Roll in this budget year where we will see an increase in property values, the municipality will not be increasing the rates in order to allow the residents to absorb the shock from the property values, as this may cause double increase for the residents.

Although the traffic department is now functioning we still encounter problems with regards to the traffic fines that are issued by the law enforcement in the sense that the state prosecutor more often than not cancels the fines or reduces them drastically. And this is impacting on the budgeting procedure as this is proving to be unpredictable. The traffic section is expanding further by establishing the vehicle testing ground and they are also planning to do driver testing in future. The vehicle licence renewal is currently done at the SA Post Office and the Department of Transport indicated that they do not plan to move this over to the municipality.

## 5. Operating Expenditure Framework

The municipality's expenditure framework for the 2020/2021 budget and MTREF is informed by the following:

- Given that one of the primary drivers of this budget is to keep tariff increases with the inflationary envelope of 6%, expenditure allocations in excess of the 2020/2021 Adjustments budget are very limited;
- Despite the above restriction the Chief Financial Officer has ensured that Repairs and Maintenance provisions are within best practice parameters of 8% of Asset Cost and 13 % of Operating Expenditure. The weakness here however is that there is no Municipal wide asset repairs and maintenance plan. Repairs and Maintenance is done in silo's hence it lacks in synergistic benefit of ensuring budget allocations are used efficiently and effectively;
- Related to the above weakness the capital programme carries the risk on not ensuring that the asset renewal strategy and backlog eradication is achieved in this budget;
- The Budget makes a marginal surplus (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit.
- Funding of the budget over the medium-term is informed by Section 18 and 19 of the MFMA
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of "no project plan no budget". If there is no business plan no funding allocation can be made. This is incumbent of the Accounting to enforce to the HOD's.

The following table is a high level summary of the 2020/2021 budget and MTREF (classified per main type of operating expenditure):

**The budgeted allocation for employee related costs** for the 2020/2021 financial year totals **R51 million**, which equals **35** per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase **of 7 per cent for the 2020/2021 financial year, based on the agreement signed in 2018. An annual increase of 5.9 and 5.8** per cent has been included in the two outer years of the MTREF.

The Job Evaluation Results were implemented and there are pending objections as such the full financial impact of cannot be determined. The Corporate Services Department must also provide final wage curve and notches so that credible budget can be finalized.

Currently there are labor issues that needs to be addressed which may have a huge impact on the salary bill. One of the overriding solutions here is that of a Municipal

Grading in the first instance and an organogram suited for such grading for the administration. Since establishment of the municipality the structure of the organogram is dictated by the influences of the different Councils over the years and different managers, hence no collectively and best practice structured staff structure. The correct grading will rationalize this anomaly and ensure the trajectory of future posts created and filled is done properly.

The newly appointed council has decided to split into two the Corporate and Community Services directorate into two, this will have an impact of one additional Senior Manager accountable to the Municipal Manager as well the Personal Assistance attached to the Senior Manager, there is no other posts that will be brought about by this change as the posts are already existing and it is the matter of split.

The cost associated with the **remuneration of councilors** is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). **An increase of 7 per cent has been budgeted for the 2020/2021 financial year.** The MEC has approved that three office-bearers positions namely the Mayor, the Deputy Mayor and Speaker be designated as full-time, these three have been budgeted for at full-time although there is a condition on the approval of the current Speaker since he is full-time employed as the teacher.

**The provision of debt impairment** was determined based on an annual collection rate of less than **60 per cent** and the Debt Write-off Policy of the municipality. For the 2020/2021 financial year this amount is **R 3,2 million**. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues. The accounting requirement of not writing bad debt to the provision but rather depicting an actual expense in the year of the write off may cause the municipality to review the estimates upwards in line with actual consumer trends at period reviews of the debtors. The amounts budgeted for also do not include the subsequent measure of Traffic fines which was a material impairment with the implementation of iGRAP 1.

**Provision for depreciation and asset impairment** has been informed by the Municipality's Financial Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total **R 15 million for the 2020/2021 financial and equates to 9.6 per cent of the total operating expenditure.**

**Bulk purchases** are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations.

The expenditure does not include distribution losses because the Technical services still need to devise a proper system for the accounting of all losses that are being incurred.

**Other materials** comprise the purchase of materials for maintenance. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. The appropriation against this group of expenditure has grown, however further effort will be made in the outer years to increase this appropriation over and above the inflationary boundaries.

**Contracted Services** these are to be kept to the minimum and the use of consultants is always discouraged. Further details relating to contracted services can be seen in MBRR SA1

**Other expenditure** comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. No significant growth has been allowed here for the 2020/2021 year with a 6 per cent allowed in the 2020/2021 year.

## **Catalyst Projects**

- **Youth** - In line with the vision of the municipality there is a huge expenditure that is invested in the uplifting of the youth through various initiatives, however we must not be spending too much money on the events rather than more value adding projects to the youth, also ensure that the expenditure is curtailed to the minimum.
- **LED** – Since Nquthu town is very rural there is very limited economic activities in the area and the municipality is currently implementing the small business incubator to assist with the development of local businesses. The municipality needs to spend resources on sustainable projects and also ensure that the projects we implement there is proper after care.
- **Tourism and Heritage** - the municipality is in the battlefield route and with rich history in respect of Isandlwana battlefield. With this the municipality is currently exploiting opportunities that can be beneficial to the community, although we are hindered by the powers and functions to proceed as most functions relating to this battlefield are either with the National or Provincial Government.

## **6. Capital expenditure**

The area of Nquthu is deeply rural and there is a challenge of access roads to the settlements and as such the focus of the municipality is the construction of roads infrastructure, but this is only gravel roads. The majority of our funding is from MIG and the other part is from own funding.

There is a plan to develop municipal land through provision of infrastructure like water, sewer, electricity and roads so that this land can be disposed for usage. The planned investment is about R 150 million over a period of two years, with the Return On Investment to be realized within these two years where sales will be made and then subsequent returns from increase in rates. Electricity will also be upgraded to cater for this new development.

## Part 2 – Supporting Documentation

### 7. Overview of the annual budget process

The Budget Preparation Process plan was adopted by the municipal council. However, since this is the first financial year of the council it still had to undergo strategic sessions to formulate its strategic direction before most of the consultations can unfold.

Public meetings will be held during the preparation of the budget. But the community will be more involved in the budget that will be tabled for public comments. The Budget steering committee meetings have been held as per the process plan for the municipal officials.

DETAIL PROCESS FOLLOWED AND MSA AND IDP CREDIBILITY REQUIREMENTS	
ISSUE	TIMEFRAME
IDP/Budget Process Plan/Timetable approved by Council	
IDP Meetings – inputs from Ward Councilors & Ward committees	
First IDP/Budget Steering Committee meeting	
Departmental Inputs on Draft Allocations	
Second Budget Steering Committee – Consider Adjustment Budget	
IDP Representative Forum	
Draft Budget Input captured and Budget Balanced	
Draft IDP & Budget tabled in Council	
IDP & Budget workshop – Council	
Public Consultation	April – May 2020
Finalise Sector/Departmental Strategy Plan/Budget – IDP	April – May 2020
Consideration of Comments received	May 2020
Tabling of Final MTREF	End of May 2020

### 8. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents.

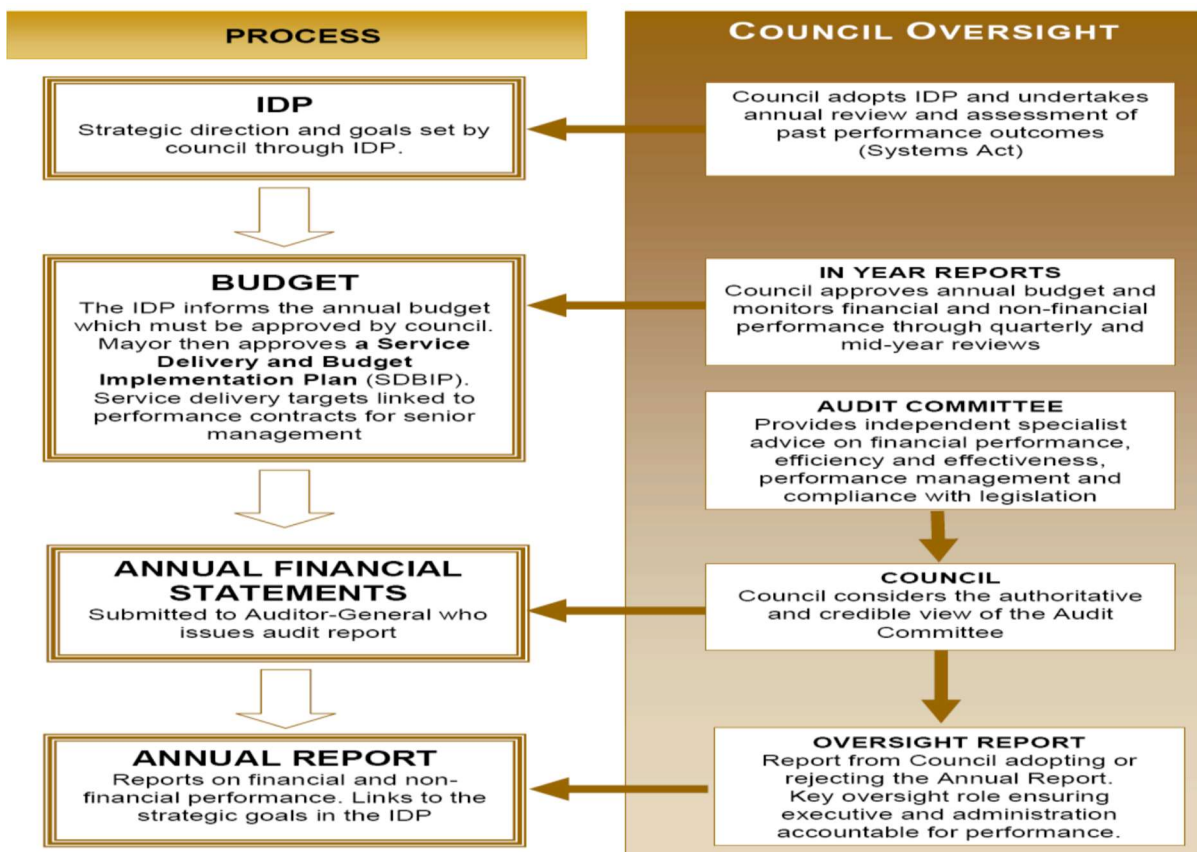
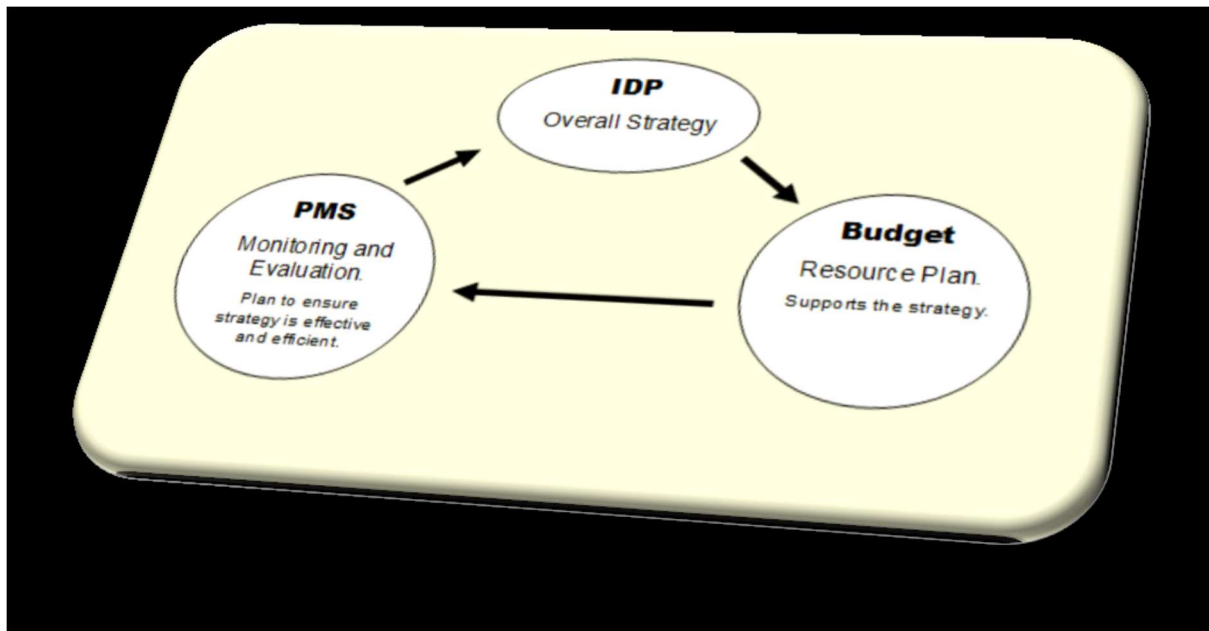
The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The IDP drives the strategic development of the Municipality. The Municipality's budget is influenced by the strategic objectives identified in the IDP. The service delivery budget implementation plan (SDBIP) ensures that the Municipality implements programmes and projects based on the IDP targets and associated budgets. The performance of the Municipality is tabled in its Annual report.

Below is the table which shows the link between IDP, Budget and National and Provincial objectives.



## 9. Measurable performance objectives and indicators

- **Financial Indicators**  
Liquidity ratios



## **10. Overview of budget related-policies**

The budget policies had not been changed for this financial year. These are the policies that we have in the municipality.

- 1) Tariff Policy on Property Rates
- 2) Tariff Policy on Electricity
- 3) Tariff Policy on Refuse Removal/Solid Waste
- 4) Municipal Property Rates Policy
- 5) Credit Control and Debt Collection Policy
- 6) Cash Management and Investment Policy
- 7) Borrowing Policy
- 8) Funding and Reserves Policy
- 9) Policy related to long-term financial planning
- 10) Supply Chain Management Policy
- 11) Supply Chain Management Policy for Infrastructure Procurement and Delivery Management (SCMPIPDM)
- 12) Policy related to the Management and Disposal of Assets
- 13) Policy relating to dealing with infrastructure investment and capital projects
- 14) Indigents Policy
- 15) Budget Implementation and Management Policy
- 16) Cost containment policy

The Municipal Property Rates Policy has proposed amendments emanating from the amendments made to the Property Rates Acts. The SCM policy has been amended to include the regulations that have been amended.

## **11. Overview of budget assumptions**

The municipality is not immune to the current economic climate facing the country and there has been a slow payment for services rendered by the consumers. We are also experiencing high losses on the electricity trading account and the Electricity department is looking at means to reduce these losses and turn-around the situation.

In light of this challenge we have adopted a conservative approach when dealing with the available resources and we are continuously putting aside excess unspent funds into reserves for future usage. We aim to keep our current ratio to be above six months considering that we are facing such challenges as the municipality.

The municipality is receiving the MIG R 31 million (2019: R 42 million) as well as INEP R 8.1 million (2019: R 24 million) which is used to fund the infrastructure

investments. We note that we are almost 100% electrification of our municipal area, we can utilize this opportunity to request the DME and our COGTA MEC to grant us further funding to finish off these few remaining areas so that we can achieve this before our term ends. This will be indeed a great achievement for this term.

## **12. Overview of budget funding**

The municipal is still highly dependent on Equitable Share to fund its operations. The current year Equitable Share is R 145 million, set to increase to R 155 million in 2021/2022.

The municipality is currently putting cash not immediately needed on short-term investments that do not exceed a period of 90 days so that interest could be earned to fund the operations of the municipality.

Although previously grants were certain and predictable, but now decreases are normally seen like the drop in INEP from the indicative allocations as tabled in prior year DoRA.

## **13. Expenditure on grants and reconciliations of unspent funds**

The municipality always strives to fully spend its conditional grants within a prescribed year, however there are instances where such could not be achieved. An application is done to the donor for pardon and to use these funds in the next period.

It is confirmed that all the grants that are not spent as at year-end are fully cash backed as required.

## **14. Allocations on grants made by the municipality**

There are no grants that are made by the municipality to any outside entity.

## **15. Councilor and employee benefits**

The councilor remuneration is currently paid out using the recent councilor remuneration gazette and we have been graded as Grade 3 for the purpose of councilor remuneration. There are currently 33 councilors, as per the current

determination by the MEC for full-time councilors for three office-bearers were determined to be full-time i.e. Mayor, Deputy Mayor and Speaker.

The management is made up of 5 managers who are all on contracts. The whole staff complement is 270 employees.

The salaries budget will be increased in line with the salary collective agreement and the average CPIX as published by Treasury. The municipality has also fully implemented the Job Evaluation although there are still pending objections that are being reviewed.

Although all posts are fully budgeted for in the current year, however a strategic decision has been taken that only critical posts will be filled in the coming year, in line with cost containment measures being implemented.

## **16. Monthly targets for revenue, expenditure and cash flow**

This table is prepared and is part of the A-schedule

## **17. Annual budgets and SDBIPs – internal departments**

The draft annual budget and departmental SDBIP's have been prepared by all the departments.

## **18. Contracts having future budgetary implications**

The municipality does not have any contracts that are beyond the 3 year that is being budgeted for. The main contracts being used are for security, lease of photocopy machines.

## **19. Capital expenditure details**

The capital budget of the municipality is mainly made up of MIG as well as own funding. Due to the high backlog of the infrastructure in our area it is always difficult for the municipality to spend 40% of its capital budget on Renewal of Existing Assets – that is required – due to the fact that we must still service those backlog. But we are gradually investing on the Renewal of Existing Assets.

The priority for Renewal of Existing Assets is currently the ageing electricity infrastructure, budgeted at R 4,3 million in the 2020/2021 budget year and set to increase in the ensuing years.

## **20. Legislation compliance status**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

### **1. In year reporting**

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.

### **2. Internship programme**

The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department.

### **3. Budget and Treasury Office**

The Budget and Treasury Office has been established in accordance with the MFMA.

### **4. Audit Committee and Internal Audit**

An Audit Committee has been established and is fully functional. The Internal Audit function is co-sourced with an internal staff member as well as consulting firm.

### **5. Service Delivery and Implementation Plan**

The draft SDBIP will be prepared

### **6. Annual Report**

Annual report for the period ending 30 June 2019 has been compiled in terms of the MFMA and National Treasury requirements.

### **7. MFMA Training**

All the Senior Managers, middle management and SCM officials has undertaken the minimum competency levels training and this is now being cascaded to the Middle management as well as other officials within the municipality.

## 8. Policies

The amendments made to the Municipal Property Rates Act has been consolidated to the Rates Policy.

## 9. Central Supplier Database

With the introduction of the Central Supplier Database the municipality has been assisting all the local service providers to register on this platform so that they can be able to vend with the municipality, quite a number of vendors are now registered. This is facilitated by the LED department in consultation with the SCM unit.

## 10. Financial Management Capability Maturity Model

The municipality is implementing the plan to address all the issues that were raised in the assessment.

## **21. Other supporting documents**

The supporting documents in the form of budget schedules have been printed under the A schedule.

## **22. Municipal standard chart of accounts (M-SCOA)**

The municipality is currently undertaking all the regulated processes and directives of the M-SCOA circulars.

Our current service provider being Sebata will be our main system provider for EMS and then we will use the following sub-system.

- Payroll – VIP/Sage
- Assets – Baud/PWC
- Prepaid – Ontec (formerly Itron)

The integration processes are currently underway that will ensure that this is seamlessly as required by the regulations.

The following has been achieved so far:

- Tabling of M-SCOA regulations to council
- Steering committee selection
- Project champion election
- M-SCOA risk register
- Submission of Activity/business plan
- MOU with current service provider
- Monthly steering committee meetings

The current estimates for M-SCOA implementation is R 1.5 million and this shall be funded from MFMG as well as own funding. There is a IT infrastructure that the municipality must invest in for the future as currently we are on the solution that is hosted by the service provider rather than the one hosted at our premises. The system is now almost stable and most of the challenges that we have been experiencing in the past have been eliminated. We trust this will further improve our compliance with returns submissions.

**23. Municipal Manager's quality certificate**

I ....., Municipal Manager of Nquthu Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: \_\_\_\_\_

Municipal Manager of Nquthu Municipality (KZN242)

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

